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value for all customers*

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30 March 2007

Dear Paul,

Standard Condition C17 (Transmission System Security Standard and Quality of Service): Electricity Transmission Licence

I refer to the letter from Andy Hiorns of National Grid Electricity Transmission plc ("NGET") dated 7 February 2007, requesting derogation from standard condition C17 of the electricity transmission licence to relieve NGET of its obligation to comply with the design of the main interconnected transmission system criteria in paragraphs 4.1 – 4.13 of the GB Security and Quality of Supply Standard, Version 1.0 (the "GBSQSS"). I also note the further letter from Luke Fieldhouse of NGET dated 29 March 2007.

We note that the NGET request for derogation relates to the circuits between Eccles and Stella West, Strathaven and Harker and relevant 132kV circuits from Galashiels (the "Cheviot Boundary Circuits").

We have considered information provided by NGET and SP Transmission Limited ("SPTL") in reaching our decision on your request for derogation from the GBSQSS in relation to the Cheviot Boundary Circuits. We note that NGET has:

- Described the planned transfer conditions that it considered when making its security assessments.
- Explained its view of the capability of the existing transmission system for transfers from Scotland to England.
- Confirmed that it expects to be able to maintain compliance with Section 5¹ of the GBSQSS.

¹ Operation of the GB Transmission System.

- Described reinforcement works that will reduce the compliance issues associated with the Cheviot Boundary Circuits.
- Advised that it intends to investigate solution options to remedy the compliance issues associated with the Cheviot Boundary Circuits and expects to bring forward proposals as part of the next price control review.
- Advised that it intends to review the GBSQSS to clarify the treatment of wind generation.

We note that SPTL has:

- Provided details of its assessment of the transfer capability required from the Cheviot Boundary Circuits based on different assumptions of the contribution from wind generation.
- Explained its view of the capability of the existing Cheviot Boundary Circuits.
- Described its planned transmission system reinforcement works intended to increase the capability of the Cheviot Boundary Circuits.
- Highlighted that NGET as system operator will need to manage the compliance issue when operating the GB transmission system in accordance with Section 5 of the GBSQSS.
- Submitted information which is consistent with that provided by NGET.
- Requested derogation from standard condition D3 (Transmission system security standard and quality of service) of its transmission licence.

We have considered NGET's derogation request in accordance with our principal objective and general duties and in light of the information provided by NGET and SPTL. We have considered in particular those factors set out in the Guidance Note 'Derogation from codes and standards in electricity generation, supply, distribution and transmission licences'² and have decided to grant derogation, subject to certain conditions, from the GBSQSS with respect to the Cheviot Boundary Circuits for the following reasons:

- NGET identified specific areas of non-compliance with the design of the main interconnected transmission system criteria of the GBSQSS.
- NGET has worked and continues to work with SPT to evaluate solution options to restore compliance with the demand connection criteria at the Cheviot Boundary Circuits.
- NGET and SPTL have agreed a solution to reduce the extent of the non-compliance with the design of the main interconnected transmission system criteria.
- NGET has put in place operational measures (predominantly the application of pre-fault constraints) to mitigate the risk of non-compliance with the design of the main interconnected transmission system criteria and ensure compliance with Section 5 of the GBSQSS.
- NGET and SPTL (together with Scottish Hydro Electric Transmission Limited) have initiated a review of the GBSQSS to assess if there is a need to clarify the treatment of wind generation in transmission system security assessments.

We have decided to grant derogation for the period of time requested by NGET as we are satisfied that this period of time reflects the timetable for the transmission system reinforcement works which were assessed as part of the recent price control review.

We acknowledge that the duration of this derogation is based on NGET's view of the time required by the relevant party to complete the identified transmission system reinforcement works. We also note that this view is subject to change. We have therefore decided to impose conditions on the grant of derogation as follows:

1. NGET is required to notify us of any significant changes to the scope of transmission system reinforcement works which impact on the completion dates for works that will increase the transfer capacity of the Cheviot Boundary Circuits. Such notification should be provided as soon as reasonably practicable.
2. NGET is required to complete the transmission system reinforcement works on NGET's transmission system which are required to increase transfer capacity of the Cheviot Boundary Circuits to 2.8GW by 31 December 2010. NGET should provide notification by 31 December 2010 if the first phase of the planned transmission system reinforcement works has not been completed.
3. NGET is required to complete the transmission system reinforcement works on NGET's transmission system which are required to increase transfer capacity of the Cheviot Boundary Circuits to 3.3GW by 30 November 2011. NGET should provide notification by 30 November 2011 if the second phase of the planned transmission system reinforcement works has not been completed.

We also acknowledge the current review of the GBSQSS and note that this review may initiate proposals to change the GBSQSS which could affect the extent of the non compliance at the Cheviot Boundary Circuits for which derogation has been sought. We further note that the lack of clarity associated with the governance arrangements for the GBSQSS may hinder the progress of the output from this review work. We acknowledge that you are currently developing a proposal for governance arrangements in conjunction with the other transmission licensees and that this work is nearly complete. We consider that it is appropriate to require NGET, as conditions on the grant of this derogation, to:

4. Submit proposals³ for governance arrangements for the GBSQSS by 30 June 2007.
5. Report⁴ its conclusions from the review of the GBSQSS to clarify treatment of wind generation by 30 April 2008.

We advise that we consider that failure to meet one or more of these conditions would be considered as grounds that may require us to revoke the Direction granting the derogation.

We further note that if NGET becomes aware that any of the identified reinforcement works may not be completed within the period of time provided in the Direction, it must request a further derogation for the additional time period required. Upon receipt of the request, we will consider granting the derogation for the additional time period.

We need to further understand the operational measures that are available and/or used by NGET to improve utilisation and/or capability of constrained boundaries on the transmission system. We intend to initiate review work and will seek information and other assistance from NGET. We note that there may be a need to revisit this decision in light of the findings of this review.

Attached to this letter is a copy of the Direction for the purposes of the derogation.

³ This proposal may be presented jointly with other transmission licensees.

⁴ This report may be presented jointly with other transmission licensees.

This letter constitutes notice for the purposes of section 49A of the Electricity Act 1989 in relation to the Direction.

Yours sincerely

A handwritten signature in black ink that reads "JG Scott". The signature is written in a cursive style with a large, stylized "J" and "S".

John Scott
Technical Director

cc:

Andy Hiorns
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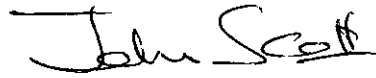
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Direction issued to National Grid Electricity Transmission plc by the Gas and Electricity Markets Authority pursuant to paragraph 4 of standard condition C17 (Transmission system security standard and quality of service) of the electricity transmission licence

1. This Direction is issued by the Gas and Electricity Markets Authority ("the Authority") pursuant to paragraph 4 of standard condition ("SLC") C17 of the electricity transmission licence ("the Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act") to National Grid Electricity Transmission plc ("the Licensee").
2. Paragraph 4 of SLC C17 of the Licence provides that the Authority may issue directions relieving the Licensee of its obligations under paragraph 1 of SLC C17 of the Licence in respect of such parts of the Licensee's transmission system and to such extent as may be specified in the directions.
3. *Subject to paragraph 4 of this Direction, the Authority hereby directs, pursuant to paragraph 4 of SLC C17 of the Licence, that the Licensee is relieved of its obligations under paragraph 1 of SLC C17 of the Licence with respect to each connection point in column 1 of the table in the schedule to this Direction for the corresponding period in column 3 of the table, from the corresponding obligation to comply with the demand connection criteria of the GB Transmission System Security and Quality of Supply Standard set out in column 2 of the table.*
4. *This derogation is subject to the Licensee:-*
 - a. providing notification of significant changes to the scope and/or completion dates of the identified long term solution (and the reasons for those changes) that arise during the period of derogation;
 - b. completing reinforcement works on NGET's transmission system required to increase the transfer capacity of the Cheviot Boundary circuits to 2.8GW by 31 December 2010;
 - c. providing notification by 31 December 2010, if the transfer capacity of the Cheviot Boundary circuits has not increased to 2.8GW by 31 December 2010;
 - d. completing reinforcement works on NGET's transmission system required to increase the transfer capacity of the Cheviot Boundary circuits to 3.3GW by 31 October 2011;
 - e. providing notification by 31 October 2011, if the transfer capacity of the Cheviot Boundary circuits has not increased to 3.3GW by 31 October 2011;
 - f. proposing governance arrangements for the GBSQSS by 30 June 2007; and
 - g. reporting conclusions from its review of the GBSQSS to clarify the treatment of wind generation by 30 April 2008.

5. This Direction shall have effect from and including 1 April 2007 and shall remain in effect up to and including 31 March 2012 or such time as the Authority shall revoke or vary the Direction in writing upon reasonable notice.

Dated: 30 March 2007

A handwritten signature in black ink that reads "John Scott". The signature is written in a cursive style with a horizontal line above the first few letters.

SIGNED on behalf of the Authority by
John Scott, Technical Director

Authorised for that purpose by the Authority

SCHEDULE

TABLE – Relief Granted in respect of Connection Points on the Licensee’s Transmission System

1 PART OF THE TRANSMISSION SYSTEM FOR WHICH RELIEF IS GIVEN	2 NATURE OF RELIEF	3 DEROGATION PERIOD	4 DETAILED DESCRIPTION OF RELIEF GRANTED		
			ISSUE	INTERIM SOLUTION	LONG TERM SOLUTION
<p>Cheviot Boundary transmission circuits</p> <ul style="list-style-type: none"> • Eccles – Stella West • Strathaven – Harker • Relevant 132kV circuits from Galashiels 	<p>Transmission System Security and Quality Standard (“GBSQSS”) Design of Main Interconnected Transmission System Criteria Paragraph 4.1 – 4.13</p>	<p>31 March 2012</p>	<p>Unacceptable overloading of remaining circuits (under Planned Transfer plus appropriate Interconnection Allowance conditions)</p>	<p>Application of pre-fault constraints to generation in Scotland to permit compliance with GBSQSS Section 5 (Operational Standards).</p> <p>Review of GBSQSS planning criteria to ensure adequacy assumptions made about wind generation when identifying background conditions used when assessing GBSQSS compliance.</p>	<p>Transmission system reinforcement works:</p> <ul style="list-style-type: none"> • On the Cheviot boundary circuits to increase transfer capacity from Scotland to England to 2.8GW. These works are planned for completion by end December 2010. • Reconductoring of the Heysham ring and upgrade of the existing 275kV route between Stella West and Norton to 400kV to increase transfer capacity from Scotland to England to 3.3GW. These works are planned for completion by end October 2011. <p>Further work is required to fully address the identified compliance issues and detailed proposals have not yet been developed. The Licensee will investigate and expects to bring forward proposals as part of the next price control review.</p>